



Bookkeeping 101: The Ceterus Way

Accrued tips, like sales tax, is complicated because the account is affected by multiple activities. In this case, sales transactions and payroll transactions. Let's walk through the flow of transactions related to accrued tips, which will help make this account easier to understand.

Before we get into the walkthrough, we need to agree on one very important piece of information as it relates to tips.

Tips collected are not revenue and tips paid is not an expense.

The above statement is true because the flow of tip transactions is simply a passthrough. The business is collecting tips on behalf of the employee and then remitting them to the employee on the next pay run. The business is merely a middle man.

Now that we have that out of the way, let's move on. I am going to borrow from other bookkeeping 101 information to help us walk through how we account for tips.

Tips are collected every day and in most cases are entered into the point-of-sale (POS) system. If the tip is paid with a credit card, it will be included in POS reports. Tips collected are reflected on the balance sheet as an increase in Accrued Tips. Below is a sample POS report. This report reflects a single day of sales activity.

Service Sales - \$1,000	Product Sales - \$500
Tips Collected - \$200	Tax Collected - \$30
Payment Type: Cash - \$100	Payment Type: AMEX - \$700
Payment Type: Visa/Mastercard - \$930	Total Collected - \$1,730

This report indicates that on this day, \$200 worth of tips were paid. We don't have a breakdown of how those payments were made (Visa, AMEX, Cash, etc). For simplicity sake, I am going to assume all tips paid were done so on a Visa credit card. Below is the journal entry that would be posted to accurately reflect the collection of tips for the day.

Account	Debit	Credit	Explanation
Undeposited Merchant Collections	200		Dollar value of tips collected, but not yet received in the operating account
Accrued Tips		200	Dollar value of tips collected that will be paid to employees during the next payrun

When the next payroll date comes around, tips collected during the pay period will be paid to employees. I've used this sample payroll report previously, so it may look familiar.

Gross Wages	25,688.71
TIPS Paid	3,215.55
Employee Payroll Taxes	5,018.07
Employer Payroll Taxes	1,937.50
Employee Benefit Deductions - Health	733.62
Net Pay - Direct Deposits	17,080.28
Net Pay - Checks	2,856.74

This shows how much was paid to employees related to tips in a given pay period. The journal entry solely related to tips would look like this:

Account	Debit	Credit	Explanation
Accrued Tips	3,215.55		Dollar value of tips paid to employees as part of this pay period
Payroll Clearing		3,215.55	A portion of the dollar value that will be pulled from the operating account as part of the total payroll pull for the period

The accrued tips account is simply a flow through account. As the business collects tips, the dollar value of this account will increase. After each payrun, the dollar value of this account will decrease due to tips being paid out to employees.